Detailed Description of the Preferred Embodiments

Detailed descriptions of the preferred embodiment are provided herein. It is to be understood, however, that the present invention may be embodied in various forms. Therefore, specific details disclosed herein are not to be interpreted as limiting, but rather as a basis for the claims and as a representative basis for teaching one skilled in the art to employ the present invention in virtually any appropriately detailed system, structure or manner.

The primary object of the invention is that it allows an alternative to mutual funds (which may be very desirable to some investors) for the insurance industry to use for their life insurance and annuity products.

Further, its objective is to provide additional derivative products of the ETF's for use as a hedge on the principal value of the policy which is provided by the investors' payments into the policies.

Another objective is to increase the efficiencies of the policies due to the unique attributes of the ETF's which include low expense ratios.

The steps are:

1) Establishing variable life insurance and/or annuity products;

2) Make available the various ETF's instead of or in addition to mutual funds;
3) For principal protection of the insured's payments that go to the principal and contribute to the cash value of the policy, the invention provides the application of a put option protection position.

A life insurance or annuity policy is a product that is comprised of an underlining investment vehicle to provide the owner of the policy with its desired features, well known to those investor/owners of life insurance and annuities, with anticipated capital appreciation over time. Typically, there are fixed life insurance and annuity policies that invest in bonds or real estate and have a stable income feature which enables the policy to appreciate at more or less a stable rate.

As an alternative, insurance companies also employ variable policies to give buyers of life and annuity policies the chance of a greater return in the long-term arena of investing. These policies use mutual funds as their preferred method of investment to hopefully see capital appreciation of the value of the policy over time. Many of these types of policies offer indexed mutual funds from which policy owners may choose such as the S & P 500, the Dow Jones Industrial Average, the NASDAQ 100, The Russell 2000, and others.

Instead of mutual funds, Exchange Traded Funds can be incorporated into the life insurance or annuity policy and still satisfy the industry's and insurance regulator's need for sufficient diversification. ETF's trade as a stock on a major exchange, and hence, unlike mutual funds, they trade throughout the day. Therefore, a policy owner

recognizing a favorable time to increase his position inside the policy or deciding to re-allocate positions already established does not have to wait for the end of the day as he must for mutual funds. He may execute his decision immediately. Due to the liquidity of the ETF's, the policy owner can obtain an immediate and efficient execution to establish his new position.

A major and highly important point is that ETF's can be shorted so that a policy owner has the potential to establish an appreciating position even in a bear market which is impossible to do using mutual funds. This allows the policyholder the potential to avoid a disastrous, prolonged bear market as previously experienced from years 2000 to 2003.

Further, ETF's tend to have lower expense ratios associated with their ownership than mutual funds. Also, there are no short-term redemption fees which can be experienced using mutual funds.

Life and particularly annuity policies sometimes have principal guarantee features associated with them. With the larger indexed ETF's such as those mentioned above there are options available that would enable the insurer to offer an option put protection feature that hedges the principal amount invested by the policy owner. If the stock market turns bearish, the put protection feature would hedge the depreciation of the ETF's.

Of course, if the stock market is bullish and there is capital appreciation of the ETF's in

the policy, then the puts will expire worthless and the cost of the put options (the premium) will detract from the performance of the capital appreciation of the ETF's. Hence, there is a cost for the put protection hedge placed on the policy protecting the principal.

This process will enable the owners of life insurance and annuity policies to more efficiently receive the benefits afforded to them by the policies, and yet, a) have the option of a principal hedge protection without an extended minimum retention period (typically seven years) and b) remain sufficiently diversified to the same extent as using mutual funds.

While the invention has been described in connection with a preferred embodiment, it is not intended to limit the scope of the invention to the particular form set forth, but on the contrary, it is intended to cover such alternatives, modifications, and equivalents as may be included within the spirit and scope of the invention as defined by the appended claims.